

NAME: \_\_\_\_\_ CLASS PERIOD: \_\_\_\_\_

## Decision Making

A fundamental lesson in economics is that there is no such thing as a free lunch. There is no such thing as a free lunch because individuals, businesses, governments, and economic systems all face scarcity. Because of scarcity, we must make choices; and the consequence of every choice is that something else is not chosen. This means that for every personal, workplace, and governmental decision there is a cost—the something else not chosen. A wise decision involves weighing the benefits and costs of the alternatives from which individuals must choose.

There is no getting around the condition of scarcity, or the choices and costs it creates. We face scarcity because our resources are limited and our economic wants are unlimited. Economic wants always outstrip the limited resources available to satisfy them. Without scarcity, it would be a different world; everything you wanted would be freely available.

People's wants are never fully satisfied. No matter what we already have, we would like to have more. The United States is one of the richest nations in the world, but poverty still exists. Even wealthy individuals desire more. Few of us are ever fully satisfied with our education, health care, and standard of living. Most everyone would like to have a higher income. Our wants are limited only by our imagination. Wants also change over time. Twenty years ago, few, if any, Americans had DVD/Blu-ray players, cell phones with cameras and video, MP3 players, car navigation systems, or digital cameras. Millions of people now own these items. Unfortunately, our resources are limited. We have only so many human resources, natural resources, and capital resources.

Human resources are the physical, intellectual, and creative talents of people. When you are working, you are using human resources. Also, when you get a better education, you are said to have improved your human capital. When people are better educated, they tend to be more productive; as a result, they usually enjoy a higher standard of living.

Natural resources are gifts of nature. They include water, forests, natural gas, oil, and climate. Natural resources are not the only resources a nation needs to become rich, but they can assist countries in improving economic outcomes.

Capital resources include those goods that are used to produce other goods and services. Tools, factories, equipment, and office buildings are examples of capital resources. In economics, the word capital refers to items used to produce something else. Capital does not refer to money.

Money is best thought of as a medium of exchange. It is used to make the buying and selling of goods and services easier. People like more money because they can use it to buy more stuff. It's the stuff that is important. Printing more money does not mean that more stuff has been produced, nor does it mean that we are all bet-

ter off. Imagine how easy it would be to improve our living standards if all we had to do was print more money. None of us would have to go to work if this was all it took to be better off!

It should be clear that more money does not eliminate or even reduce scarcity. Scarcity is a fundamental condition of all economic systems. Because of scarcity, we must make choices. Every choice involves an opportunity cost. The opportunity cost of a decision is the next-best alternative that is given up. It is the value of what you give up in order to get what you want.

**Questions:**

- a. Why is there no such thing as a free lunch?
- b. Give some examples of natural resources, human resources, and capital resources.
- c. What is capital?
- d. Why do economists NOT view money as capital?
- e. What is an opportunity cost?

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## Personal Decision Making

This exercise focuses on making personal decisions. Our personal resources include time, energy, and skills that we use to satisfy our wants. They also include the financial resources (such as money, savings bonds, and deposit accounts in banks) that we have accumulated over our lifetime.

We use these personal resources to purchase goods and services. Goods are things we can touch, such as cars, houses, computers, and cell phones. Services are activities such as rock concerts, education, movies, insurance, loans, vacations, and health care. Of course, we cannot have all the goods and services we want because of scarcity. But we can have more goods and services if we choose wisely. By carefully considering the costs and benefits of our decisions, we can improve our lives.

### A College for Maria

Maria Delgado will graduate from high school this spring. She plans to attend college, but she does not know which college to attend. She is using a decision-making model in order to make a better choice. Let's work through Maria's decision, using the five-step decision-making model.

#### Step 1: Define the Problem

Maria must recognize the problem. She knows that all colleges and universities are not alike, and she must choose the one that is right for her. She plans to major in marketing.

#### Step 2: List the Alternatives

Maria has found three main alternatives. State U is a big university with 30,000 students, and it offers both undergraduate and graduate programs. Many undergraduate classes are very large; some have more than 300 students. The tuition is reasonable. The business school and the marketing program are highly ranked nationally. State U is located 150 miles from Maria's hometown.

Local Community College is a two-year college only a few miles away from Maria's house. Its classes are smaller than State U's, averaging about 40 students. There are marketing classes. While some faculty members are outstanding, Maria has heard that most do not have Ph.D. degrees (most faculty members at State U do have Ph.D. degrees). The tuition for LCC is low, and if she decides on LCC, Maria could keep her part-time job.

Private College, which has only 3,000 students, is located 200 miles from Maria's hometown in a neighboring state. The classes are small, and the students get a lot of individual attention and help. The college offers marketing courses. Its admission standards are high, but Maria is an outstanding student and thinks she has a good

chance of being accepted. Tuition is expensive. Private College gives scholarships and loans, but the cost would still be higher than the cost at State U.

### STEP 3: Identify Your Criteria

For any choice, your criteria are important considerations by which the alternative possibilities may be judged. People often differ in the criteria they consider important in making choices.

Maria's most important criteria are these:

- Low-cost tuition, because her family is not wealthy.
- High-quality education, particularly in marketing.
- Small class size and personal attention.
- Close location to home, because she feels she would miss her friends if she were far away.

### Step 4: Evaluate Your Alternatives

Maria must now evaluate her alternatives against her criteria. She has decided to use the decision-making grid shown at the end of this exercise. She will use a "+" and "-" system to evaluate each alternative. One plus sign is positive and two plus signs are even better—very positive. A minus sign is negative. Two minus signs are very negative. Complete the grid before going to Step 5.

### Step 5: Make a Decision

Maria decided to attend Local Community College for two years. Cost is very important to her. By attending the community college while working part-time, she might even be able to save some money. She felt the private college had the best program for her, but it is too expensive and too far from home. The community college had the most pluses. Low cost and closeness to home were very important to Maria, and the community college ranked highest on these criteria.

A longer-term option for Maria may be to save money and apply for scholarships during the two years when she attends the community college. If she does this, she may be able to attend the private school for her final two years of college.

### Maria's Decision-Making Grid

Based on the information in this exercise, use the grid to help Maria make a decision. Then answer the questions that follow.

#### What is the problem?

Fill in the boxes with "+", "++", or "-", "--", as you think Maria might have decided.

	CRITERIA			
ALTERNATIVES	Low Cost	Quality Programs	Personal Attention	Close to Home
State U				
Local Community College				
Private College				

Maria's Decision \_\_\_\_\_

#### Questions:

- Why is the decision-making model important?
- Are there any additional criteria that Maria did not consider that you feel are important in choosing a college?
- Do you agree with Maria's choice? Why or why not?

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## Buying a New Computer or Digital Camera

You can use the decision-making model and grid for any consumer decision. Assume you want to buy a computer or a digital camera. Fill out the decision-making grid that follows and decide which computer or digital camera to buy. Find the alternative models at electronics superstores, computer or camera stores, or online stores. Develop your criteria, which could include size, cost, memory, disk capacity, speed, audio and video capabilities, etc. Choose the criteria that are most important to you; fill out the grid; make a choice; and justify it.

### Decision-Making Grid

The Problem:

Criteria ↓ Alternatives					

The Decision: